

GIFT CARDS 2005: MANY GOOD RETAIL CARDS. ANY GOOD BANK CARDS?

Background

Gift cards continue to be a huge and growing business. One estimate is that there were \$79.04 billion of gift card transactions in 2004 and that that figure will grow to \$94.84 billion in transactions in 2005.¹ Of course, as with many retail items, the holiday season is the peak for gift card sales. The National Retail Federation's (NRF) 2005 gift Card Survey found that 75.5 percent of consumers plan to purchase at least one gift card this holiday season and predicts \$18.48 billion in holiday gift card sales, a 6.6 percent increase over 2004.² While the traditional retailer gift cards continue to sell well, the fastest growing segment of the gift card industry is bank cards. These cards carry the logo of credit, debit, or charge card companies such as American Express, Discover, MasterCard, and Visa. They may be issued directly by the card company, or they may be issued by and also carry the logo of banks, shopping malls, or other institutions, in a manner similar to credit cards. These cards offer the advantage of being accepted everywhere that type of credit, debit, or charge card is accepted.

The Montgomery County Division of Consumer Affairs issued our first gift card report in 2003. We looked at 30 retail cards and highlighted that, while only a few cards had expiration dates, many had monthly "dormancy" or "inactivity" fees (such as \$2.00 per month after a card has not been used for 18 months) that could deplete the cards' value.³ These fees are extremely unpopular with consumers. A 2004 study of Synergistics Research Corporation found that when gift card purchasers and likely purchasers were informed of such fees, sixty (60) percent indicated they would make an effort to buy only gift cards that do not have dormancy fees and twenty (20) percent indicated they would stop buying gift cards because of dormancy fees.⁴

Our 2004 gift card report again looked at 30 retail cards but also looked at four bank gift cards.⁵ We shared our information with Consumer Reports Money Adviser newsletter, which featured our information in an article on gift cards that appeared in the newsletter⁶ and on www.consumerreports.org. We found that retail cards had improved since 2003, with fewer charging dormancy fees. On the other hand, we found that the bank cards' advantage of being accepted at many merchants was offset by a slew of fees and expiration dates.

Methodology

For this, our third annual gift card report, we reviewed the gift cards, packaging and inserts, websites, and policies of thirty major retailers and restaurant chains, and eight bank card issuers (one is actually a gift check). The list of retailers and restaurants (contained in Table A) includes department stores, discount stores, wholesale clubs, toy stores, clothing stores, home improvement stores, craft stores, video rental stores, grocery stores, sporting goods stores, computer stores, coffee shops, and restaurants. It has only a few changes from the lists we used in our prior two reports and includes some of the nation's largest retailers. The bank cards are listed in Table B. The retail card information was gathered in mid-November 2005 and the bank card information was gathered in early October 2005.

Retail Cards

We continue to believe that the three retail gift card policies that are most important to consumers are:

- 1) Whether replacement cards may be obtained if the gift card is lost or stolen and its value has not been used up,
- 2) Whether the cards have an expiration date, and
- 3) Whether fees might be assessed to the card's balance.

Results for these policies are presented in the first three columns in Table A.

The National Retail Federation recommends that consumers should understand a gift card's policies before they buy.⁷ We agree. Therefore, for those companies whose cards have an expiration date or a potential fee, we also looked at whether the cards' packaging (if any) in stores and the company's website (if cards are sold on the website) disclose the expiration date or potential fee. The results for those companies' disclosures are shown in the fourth column of Table A. It should be noted that a company was credited with a "Yes" for disclosure only if the expiration date or fee is disclosed in the stores and on the website, if cards are sold both places. At the same time, we were generous in giving credit for disclosure. Even if the disclosure is multiple clicks away from most of the gift card information on the website or a consumer has to almost rip the card off the packaging to see the disclosures in stores, we counted that as a disclosure in that sales mode.

Bank Cards

When we reviewed bank gift cards, it became apparent that we would need a more comprehensive table because they impose a variety of fees and offer features that retail gift cards do not. In fact, there are so many fees and features that many are disclosed in somewhat lengthy paperwork accompanying the cards rather than on the cards themselves. This can make it difficult to know the terms pre-purchase when shopping in person, but some bank branches or other sellers might allow prospective purchasers to look over the paperwork before finalizing the purchase. The disclosures also appear on the cards' websites, where many of them are bought. Though some cards have additional features or fees, we reviewed the following policies in our study:

- 1) Whether the cards have a processing/purchase fee,
- 2) Whether a lost or stolen card can be replaced and at what charge,
- 3) Whether the card can be used to obtain cash from an ATM and what the fee is,

- 4) Whether there is a fee for a telephone balance inquiry,
- 5) Whether there is a monthly maintenance fee,
- 6) Whether the card has an expiration date, and
- 7) Whether the card is reloadable and at what charge.

The results for these policies appear in Table B.

Findings

Retail Cards

- Twenty-two (22) of the thirty (30) cards, 73 percent offer the potential to obtain a replacement card, with the remaining balance, if the original is lost or stolen. Getting a replacement may require the original receipt and the card number. Some companies may accept other proof of purchase. Starbucks requires the card to have been registered with them.
- Only two (2) of the thirty (30) cards, Blockbuster's and Macy's, have an absolute expiration date. Macy's does not give the specific expiration date on its card, though it is given on the receipts when the card is purchased and used. Expiration dates do not apply in a few states that have prohibited them.
- By contrast, seven (7) of the thirty (30) cards, 23 percent, may impose fees if the card is not used much. They are CompUSA, Hollywood Video, KB Toys, Kmart, Kohl's, Red Lobster, and Toys "R" Us. These are "dormancy" or "inactivity" fees of \$1.00 - \$2.10 per month that kick in if the card has not been used from 12-24 months. Kmart and Red Lobster stop imposing this fee once the card is used. Some Hollywood Video cards indicate they charge this fee, while some do not. A company representative told us they will not charge the fee even though some cards say otherwise. Still, we believe consumers would be more comfortable if Hollywood would remove the right to charge this fee from all cards it sells. Fees do not apply in a few states that have prohibited them.

- Nine (9) of the thirty (30) cards, 30 percent, impose either an expiration date or a potential fee. No card imposes both.
- Eighteen (18) of the thirty (30) cards, 60 percent, stand out by offering the potential for a replacement and not imposing an expiration date or fee. They are: Best Buy, Borders Books, Circuit City, Costco, Gap, Home Depot, JC Penney, Lowe's, McDonald's, Nordstrom, Old Navy, PETsMART, Sam's Club, Sears, Sports Authority, Starbucks, Target, and Wal-Mart. A caveat should be noted for Best Buy and Home Depot: they reserve the right to change the applicable terms and conditions of their cards, so the current terms are not guaranteed for the life of the card.
- Of the nine (9) companies' cards that impose an expiration date or potential fee, five (5), 56 percent, fail to disclose those restrictions pre-purchase in either their stores or websites, or both. They are Blockbuster, KB Toys, Kmart, Red Lobster, and Toys "R" Us. Kmart not only fails to disclose their fee, it also misleadingly states on its website that its cards "never expire." While there is no pre-set expiration date, Kmart's dormancy fee ensures that an unused card will eventually expire.

Bank Cards

- All of the bank cards, except for the Discover Gift Card (which is available only to Discover Cardmembers), impose a processing/purchase charge of \$2.50 - \$9.95.
- All eight of the bank cards offer replacement cards. They are free for American Express Gift Cheques and Discover Gift Cards. The other cards charge \$5.00 - \$10.00 for that service.
- Three of the eight bank cards can be used in ATMs, at a charge of \$.99 - \$2.50 per transaction above the charges of the ATM operator.
- Two of the eight bank cards may impose a telephone balance inquiry fee of \$.41 - \$1.00.
- Four of the eight bank cards have a monthly maintenance fee of \$2.00 - \$4.95 per month. The American Express Card and Simon Mall Visa Gift Card defer this fee for 12 months. The Discover

Gift Card imposes its fee after 12 months of non-use. The iCARD Visa Gift Card charges a \$25.00 fee after six months. The All-Access Visa Prepaid Card (under the Pay-as-You-Go Plan), American Express Gift Cheque, and Anywhere MasterCard Gift Card have no maintenance or dormancy fees.

- All the bank cards, except the American Express Gift Cheque, have an expiration date. All these cards offer the opportunity — usually for a fee of \$5.00 - \$25.00 — to have the remaining balance at expiration returned via a reissued card or check. The Discover Gift Card and Anywhere MasterCard Gift Card stipulate that this must be requested within 90 days or one year of expiration, respectively. The iCARD Visa Gift Card increases its check issuance fee to \$75.00 if a refund is not requested it until more than two years after expiration.

Apparently because it offers to return an expired card's balance, American Express trumpets on its gift card's packaging and website that the "funds never expire," though the card does. To its credit, American Express recently eliminated its charge for having an expired card's remaining balance refunded via a reissued card. Nevertheless, it seems misleading for American Express to make the "funds never expire" claim when it imposes a \$2.00 per month maintenance fee after 12 months. Because of that fee, the funds on an unused \$25.00 American Express Gift Card will have expired after 25 months, even though the card may not expire for another 11 months.

- Only the All-Access Visa Prepaid Card and the Good2Go MasterCard are reloadable—for a fee, of course.
- All the bank cards, except the American Express Gift Cheque, reserve the right to change the terms and conditions of the card.

Highlights

Retail Cards

This year's sample indicates that major retailers and restaurants have made few changes in their gift cards in the past year. We can again recommend eighteen (18) of the thirty (30) cards we studied because they offer replacements and have no fees or expiration dates. Expiration dates seem to have almost disappeared, with only Blockbuster and Macy's imposing them. Fees still appear on 23 percent of the cards studied. Finally, it is disappointing that, despite the widespread publicity our studies have received the last two years, five (5) of the nine (9) companies whose cards carry fees or expiration dates still do not adequately disclose that prepurchase. Thus, while the National Retail Federation encourages consumers to understand retailers' card policies before buying, these retailers' disclosure policies are preventing that from happening.

Bank Cards

The seemingly attractive features of bank cards tend to come at the price of a slew of fees that can make them less attractive than retail cards. Those fees could get even worse since all the bank cards we studied, except the American Express Gift Cheque, reserve the right to change terms. The American Express Gift Cheque is the only bank card we've looked at that imposes no post-purchase fees or expiration dates. If it is purchased in person, the processing charge is a moderate \$2.50. Of course, this product is not a card and does not offer the compact, electronic convenience of a card. It is best described as a renamed traveler's check. The recipient is supposed to sign it upon receipt and again when it is used. If an item of lesser value than the check is purchased, the balance will be returned in cash. As American Express Travelers Checks, they are accepted almost everywhere and offer the prospect of replacement if the receipt is retained. For Discover Cardmembers, the Discovery Gift Card is available for no processing

charge so that the card can be given while only spending the face value. The recipient, however, will be faced with a possible monthly fee and an expiration date.

Some of the other bank cards carry fees that become scary. The iCARD Visa Gift Card imposes a \$25.00 maintenance fee after six months and then it expires a month later. It will cost at least \$25.00 to get the balance refunded by check and can cost up to \$75.00 if one waits over two years to request a refund. The processing charge to purchase All-Access Visa Prepaid Card and the Good2Go MasterCard is \$9.95 and both of these cards offer confusing options during online activation that could end up costing consumers a lot more. The All-Access Card, for example, offers a Fee Advantage Plan that costs \$9.95 per month or \$69.95 a year, if paid up front.

Recommendations

For Card Buyers/Givers

- Choose one of the eighteen (18) standout retail cards highlighted in this study, bearing in mind our caveat on Best Buy and Home Depot. While the features highlighted in this study may not be critical to all recipients, we believe they will appreciate receiving a card with all these features. In addition, our experience is that expiration dates, fees, or losing a card become a factor much more often than one would expect.
- If the widespread acceptance of a bank card is of primary importance, the American Express Gift Cheque offers that while imposing no post-purchase fees or expiration date. The processing charge to purchase one is a moderate \$2.50 if purchased in person. It is not a card, however, and is best described as a renamed traveler's check. Discover Cardmembers may purchase Discover Gift Cards for face value, with no processing charge, though recipients will be faced with a possible monthly fee and an expiration date.

- Send the original receipt along with the card to the recipient or the recipient's parent. Advise them to keep it in a safe place so they can seek a replacement if the card is lost or stolen.
- When buying a gift card, look carefully at the pre-purchase disclosures of terms and conditions on the website and the packaging or inserts in the store or bank. If terms are not given or appear too cryptic to be complete, do not buy.

For Recipients

- Look at the terms and conditions on the back of a gift card and any paper insert as soon as you receive one. If the card has an expiration or fee commencement date, spend it promptly. Avoid the bank card uses that incur additional fees.
- Set up a family gift card file to retain the original receipts, card numbers, any expiration/fee commencement dates, any inserts with terms and conditions, and toll free customer service numbers.
- Call the toll free number as soon as possible if the card is missing because you should not expect a replacement if someone else has spent the balance on your missing card. Even if the card says that replacements are not provided, contact the company anyway if it is lost or stolen. It does not hurt to ask, and we suspect more companies will adopt replacement policies.

Retail Cards (Table A)

Card	Are Replacement Cards available if lost or stolen?	Is there an Expiration date?	Are there Fees?	Is the Expiration date/fee disclosed pre-purchase in both store and website?
Barnes & Noble	No	No	No	n/a
Best Buy ¹	Yes, with proof of purchase	No	No	n/a
Blockbuster	No	Yes – after 24 mos. non-use ²	No	No
Borders Books ³	Yes, with proof of purchase	No	No	n/a
Circuit City	Yes, with original receipt	No	No	n/a
CompUSA	Yes, with proof of purchase	No	\$1/mo. after 24 mos. non-use if card value becomes \$5.00 or less	Yes
Costco	Yes, with original receipt	No	No	n/a
Gap	Yes, with original receipt	No	No	n/a
Hollywood Video	No	No	\$1/mo. after 12 mos. non-use, on some cards ⁴	Yes
Home Depot ¹	Yes, with proof of purchase	No	No	n/a
JC Penney	Yes, with proof of purchase	No	No	n/a
KB Toys	No	No	\$1.50/mo after 24 mos. non-use	No
KMart	No	No	\$2.10/mo after 24 mos. non-use, until used	No
Kohl's	Yes, with proof of purchase	No	\$1.50/mo after 24 mos. non-use	Yes
Lowe's	Yes, with original receipt	No	No	n/a
Macy's (a Federated Department Store)	Yes, with proof of purchase	Yes, after 2 yrs. from last value added	No	No
McDonald's	Yes, with original or most recent reload receipt	No	No	n/a
Michaels	No	No	No	n/a
Nordstrom	Yes, with proof of purchase	No	No	n/a
Old Navy	Yes, with original receipt	No	No	n/a
PETsMART	Yes, with proof of purchase and card number	No	No	n/a
Red Lobster (Darden Restaurants) ⁵	No	No	\$1.50/mo after 15 mos. non-use, until used	No
Safeway	No	No	No	n/a
Sam's Club	Yes, with original receipt	No	No	n/a
Sears	Yes, with proof of purchase	No	No	n/a
Sports Authority	Yes, with proof of purchase and ID	No	No	n/a
Starbucks	Yes, if card registered	No	No	n/a
Target	Yes, with original receipt	No	No	n/a
Toys "R" Us	Yes, with proof of purchase	No	\$2/mo. after 24 mos. non-use	No ⁶ (only sold in stores)
Wal-Mart	Yes, with original receipt	No	No	n/a

Bank Cards (Table B)

Card	How Purchased	Processing Fee	Replacement Card Fee	ATM/Cash Access Fee	Telephone Balance Inquiry Fee	Maintenance Fees	Expiration Date	Reloadable Y/N
All-Access Visa Prepaid Card (Inter National Bank)	Participating Retailers	\$9.95 (Load Fee determined by retailer)	\$9.95	With the default Pay-As-You-Go™ Plan - All ATM withdrawals and PIN-based transactions have a fee of \$2.00, plus any charges assessed by the ATM owner/bank/machine.	\$.50	Pay-As-You-Go™ Plan – None. You pay a fee of \$1.00 per signature-based transaction. FeeAdvantage™ Plan - \$9.95 per month (or can be paid annually \$69.95). Account Maintenance Fee of \$5.95/month until account becomes active again. Inactive account defined as 90 days of no debit or credit transactions.	Three years from date of purchase - indicated on the card. Transfer funds to another NetSpend account - Free. Refund check mailing fee - \$5.95.	Yes Convenience fee determined by distributor
American Express Gift Card	Online at www.americanexpress.com/giftcard By phone at 1-877-AXP-GIFT At participating banks, retailers, and malls.	\$3.95, plus \$5.95 (\$2.00 for personalized cards) for online and phone orders Not available to residents of CT, HI, NH, RI, & VT	\$5.95	Cannot be used in ATMs	None	\$2.00 per month after 12 months	Up to 3 years from date of purchase, depending on where purchased—marked on card. Remaining balance may be transferred to a new gift card for free or refunded via check minus \$10.00 check-issuance fee.	No

Card	How Purchased	Processing Fee	Replacement Card Fee	ATM/Cash Access Fee	Telephone Balance Inquiry Fee	Maintenance Fees	Expiration Date	Reloadable Y/N
American Express Gift Cheque	Online at www.americanexpress.com By phone at 1-888-269-6669 At participating banks, credit unions, and American Express Travel Service locations	\$2.50, plus \$5.95 shipping and handling for online and phone orders.	None	Cannot be used in ATMs	Not applicable Any balance is refunded in cash when purchase is made.	None	None	No
Anywhere MasterCard Gift Card ^R	Online at www.birthdaygift.com By phone at 1-866-269-GIFT (4438) Not available to residents of VT.	\$25-49 fee is \$4.95 \$50-99 fee is \$6.95 \$100-149 fee is \$8.95	\$5.00	Cannot be used at ATMs	None	None	6 Months from date of purchase. Date will be embossed on card. Remaining balance (rounded to the nearest whole dollar) can be re-issued on a new card within 1 year, less a \$5.00 fee.	No
Discover Gift Card	Online at www.discovergiftcard.com By phone at 1-800-418-3964 Must be a Discover Cardmember to purchase Not available to residents of CT, DC, MA, ME, NH, RI, & VT	None	None	Cannot be used at ATMs	None	\$2.50 per month after 12 consecutive months non-use	24 months from time of purchase. Printed on Card. Remaining balance may be transferred to a new gift card less a \$5.00 service fee or refunded by check less a \$10.00 service fee (must be requested within 90 days after expiration).	No

Card	How Purchased	Processing Fee	Replacement Card Fee	ATM/Cash Access Fee	Telephone Balance Inquiry Fee	Maintenance Fees	Expiration Date	Reloadable Y/N
Good2Go MasterCard (Columbus Bank and Trust)	Participating Retailers	\$9.95	\$10.00	\$2.50 per ATM transaction (\$0.99 per ATM transaction for Student Cards) above charge of ATM operator. \$4.00 per cash advance obtained from a teller or other non-ATM cash system.	Via interactive voice response system - \$0.75/call in excess of 5 per month. Live operator-\$0.41/minute, up to a maximum of \$1.00 per call.	\$4.95 per month	At least 1 year from the date of activation. Remaining balance may be transferred to a new card, if issuer chooses, or refunded by check.	Yes (before it expires) Through Next Estate, up to \$5.95 per reload.
iCARD Visa Gift Card (BANKFIRST)	Online at www.icardgiftcard.com By phone at 1-636-733-7541	\$7.95, plus 2.5% of card's value for phone orders	\$5.95	\$2.50 per transaction above surcharge of ATM owner	None	\$25.00 after 6 months	6 months from the month following issuance Balance may be refunded by check for \$25.00 fee within 1 year of purchase, \$50.00 from 1-2 years, or \$75.00 after 2 years.	No
Simon Mall Visa Gift Card (U.S. Bank)	Online at www.simongiftcard.com In Simon malls	\$5.95 online \$2.00 in malls	\$5.00	Cannot be used in ATMs	None	\$2.50 per month after 12 months (In NY, no fees prior to 13 th consecutive month of non-use)	Printed on front of card Remaining balance may be transferred to a new card for \$15.00 reissue fee.	No

¹ Presentation of Sherrie L. W. Rhine, Senior Economist, Federal Reserve Bank of New York, at the Annual Conference of the National Association of Consumer Agency Administrators, June 6, 2005.

² “Gift Card Sales to Surge Again this Holiday as Popularity Increases,” National Retail Federation Press Release, November 17, 2005.

³ “Gift Cards: A Comparison of the Gift Cards of Thirty Major Retailers and Food Service Chains. What’s in the Fine Print (When You Can Find It),” Montgomery County, Maryland, Division of Consumer Affairs, December 1, 2003.

⁴ “Prepaid Dormancy Fees—A Sleeping Issue That May Awaken Consumers,” Synergistics Research Corporation Press Release, August 26, 2004.

⁵ “Gift Cards 2004: Retail Cards Improve, But Beware of the Bank Cards,” Montgomery County, Maryland, Division of Consumer Affairs, November 23, 2004.

⁶ “The Gift of Plastic: This Season’s Batch of Store Gift Cards has Really Improved. Too bad we can’t say the same about Bank Cards,” Consumer Reports Money Adviser, December 2004.

⁷ “Gift Card Sales to Surge Again this Holiday as Popularity Increases,” National Retail Federation Press Release, November 17, 2005

¹ Company reserves right to alter terms and conditions of its cards.

² Some Blockbuster cards sold at other retailers impose a \$2/mo. fee after 24 mos. non-use, instead of an expiration date.

³ Can also be used at Waldenbooks and Brentano’s.

⁴ Company representative says they are not charging dormancy fees, regardless of what the card says.

⁵ Also can be used at Olive Garden, Bahama Breeze, and Smokey Bones.

⁶ The packaging on some Toys “R” Us cards sold at other retailers does disclose the fee.